

Actuarial Solutions

Steve Lattanzio

Projected Loss Increases by
\$29.9 million from
evaluation as of
December 31, 2002 to
evaluation as of
December 31, 2003

Actuarial Solutions
has significant experience
with projecting
workers comp. losses

Year End 2003 Analysis
Reviewed by KY Department
of Workers Claims

Year End 2002 Analysis
Reviewed by AIK COMP's
Auditor-Ernst & Young

What are the Causes of the
Increase in Loss from Year
End 2002 to 2003?

Ultimate Loss (In Millions)

Accident Year	Loss @ 12/31/02
1997	\$22.5
1998	\$18.3
1999	\$19.1
2000	\$20.8
2001	\$23.3
2002	\$31.9

Ultimate Loss (In Millions)

Accident Year	Payroll	Loss @ 12/31/02	Loss Cost @ 12/31/02
1997	\$2,186	\$22.5	\$1.03
1998	\$2,109	\$18.3	\$0.87
1999	\$2,071	\$19.1	\$0.92
2000	\$2,041	\$20.8	\$1.02
2001	\$2,322	\$23.3	\$1.00
2002	\$2,860	\$31.9	\$1.12

Ultimate Loss (In Millions)

Accident Year	Payroll	Loss @ 12/31/02	Loss @ 12/31/03	Loss Cost @ 12/31/03
2000	\$2,041	\$20.8	\$22.8	
2001	\$2,322	\$23.3	\$26.8	
2002	\$2,860	\$31.9	\$43.3	1.51
2003	\$3,120		\$40.1	1.29

Workers Compensation
Provides For Both
Indemnity and Medical Benefits

Indemnity (In Millions)

Accident Year	Paid Loss		(3) Percent Increase
	(1)	(2)	
	12 Months	24 Months	
1996	\$2.1	\$4.4	+ 104%
1997	\$2.2	\$3.6	+ 64%
1998	\$2.1	\$3.4	+ 66%
1999	\$1.9	\$3.5	+ 89%
2000	\$2.2	\$4.0	+ 85%
2001	\$2.5	\$4.9	+ 95%
2002	\$3.9	\$8.8	+ 127%

Indemnity (In Millions)

Accident Year	Paid Loss		(3) Percent Increase
	(1)	(2)	
	12 Months	24 Months	
1996	\$2.1	\$4.4	+ 104%
1997	\$2.2	\$3.6	+ 64%
1998	\$2.1	\$3.4	+ 66%
1999	\$1.9	\$3.5	+ 89%
2000	\$2.2	\$4.0	+ 85%
2001	\$2.5	\$4.9	+ 95%
2002	\$3.9	\$8.8	+127%

Indemnity (In Millions)

Accident Year	Paid Loss		(3) Percent Increase
	(1)	(2)	
	24 Months	36 Months	
1995	\$5.2	\$7.2	+ 39%
1996	\$4.4	\$6.1	+ 39%
1997	\$3.6	\$5.0	+ 37%
1998	\$3.4	\$4.3	+ 25%
1999	\$3.5	\$4.6	+ 32%
2000	\$4.0	\$5.6	+ 38%
2001	\$4.9	\$7.7	+ 56%

Indemnity (In Millions)

Accident Year	Paid Loss		(3) Percent Increase
	(1)	(2)	
	24 Months	36 Months	
1995	\$5.2	\$7.2	+ 39%
1996	\$4.4	\$6.1	+ 39%
1997	\$3.6	\$5.0	+ 37%
1998	\$3.4	\$4.3	+ 25%
1999	\$3.5	\$4.6	+ 32%
2000	\$4.0	\$5.6	+ 38%
2001	\$4.9	\$7.7	+ 56%

Indemnity (In Millions)

Accident Year	Paid Loss		(3) Percent Increase
	(1) 36 Months	(2) 48 Months	
1994	\$8.7	\$10.4	+ 19%
1995	\$7.2	\$8.4	+ 17%
1996	\$6.1	\$6.8	+ 11%
1997	\$5.0	\$5.8	+ 18%
1998	\$4.3	\$5.1	+ 18%
1999	\$4.6	\$5.5	+ 18%
2000	\$5.6	\$7.1	+ 27%

Indemnity (In Millions)

Accident Year	Paid Loss		(3) Percent Increase
	(1) 36 Months	(2) 48 Months	
1994	\$8.7	\$10.4	+ 19%
1995	\$7.2	\$8.4	+ 17%
1996	\$6.1	\$6.8	+ 11%
1997	\$5.0	\$5.8	+ 18%
1998	\$4.3	\$5.1	+ 18%
1999	\$4.6	\$5.5	+ 18%
2000	\$5.6	\$7.1	+ 27%

Medical (In Millions)

Accident Year	Paid Loss		(3) Percent Increase
	(1)	(2)	
	12 Months	24 Months	
1996	\$6.1	\$10.0	+ 64%
1997	\$6.2	\$9.8	+ 58%
1998	\$5.7	\$8.6	+ 52%
1999	\$5.2	\$8.2	+ 58%
2000	\$4.9	\$8.4	+ 75%
2001	\$5.3	\$9.4	+ 75%
2002	\$8.1	\$15.0	+ 85%

Medical (In Millions)

Accident Year	Paid Loss		(3) Percent Increase
	(1) 12 Months	(2) 24 Months	
1996	\$6.1	\$10.0	+ 64%
1997	\$6.2	\$9.8	+ 58%
1998	\$5.7	\$8.6	+ 52%
1999	\$5.2	\$8.2	+ 58%
2000	\$4.9	\$8.4	+ 75%
2001	\$5.3	\$9.4	+ 75%
2002	\$8.1	\$15.0	+ 85%

Medical (In Millions)

Accident Year	Paid Loss		(3) Percent Increase
	(1)	(2)	
	24 Months	36 Months	
1995	\$10.8	\$11.8	+ 9%
1996	\$10.0	\$10.9	+ 9%
1997	\$9.8	\$10.5	+ 7%
1998	\$8.6	\$9.1	+ 6%
1999	\$8.2	\$9.1	+ 10%
2000	\$8.4	\$9.4	+ 12%
2001	\$9.4	\$10.3	+ 10%

Medical (In Millions)

Accident Year	Paid Loss		(3) Percent Increase
	(1) 24 Months	(2) 36 Months	
1995	\$10.8	\$11.8	+ 9%
1996	\$10.0	\$10.9	+ 9%
1997	\$9.8	\$10.5	+ 7%
1998	\$8.6	\$9.1	+ 6%
1999	\$8.2	\$9.1	+ 10%
2000	\$8.4	\$9.4	+ 12%
2001	\$9.4	\$10.3	+ 10%

Medical (In Millions)

Accident Year	Paid Loss		(3) Percent Increase
	(1)	(2)	
	36 Months	48 Months	
1994	\$14.2	\$14.9	+ 4%
1995	\$11.8	\$12.3	+ 5%
1996	\$10.9	\$11.2	+ 3%
1997	\$10.5	\$11.0	+ 4%
1998	\$9.1	\$9.3	+ 3%
1999	\$9.1	\$9.6	+ 6%
2000	\$9.4	\$9.9	+ 5%

Medical (In Millions)

Accident Year	Paid Loss		(3) Percent Increase
	(1)	(2)	
	36 Months	48 Months	
1994	\$14.2	\$14.9	+ 4%
1995	\$11.8	\$12.3	+ 5%
1996	\$10.9	\$11.2	+ 3%
1997	\$10.5	\$11.0	+ 4%
1998	\$9.1	\$9.3	+ 3%
1999	\$9.1	\$9.6	+ 6%
2000	\$9.4	\$9.9	+ 5%

Indemnity (In Millions)

Accident Year	Paid Loss			Projected Ultimate	
	(1)	(2)	(3)	@12/31/02	@12/31/03
	12 Months	24 Months	Percent Increase		
1996	\$2.1	\$4.4	+ 104%		
1997	\$2.2	\$3.6	+ 64%		
1998	\$2.1	\$3.4	+ 66%		
1999	\$1.9	\$3.5	+ 89%		
2000	\$2.2	\$4.0	+ 85%		
2001	\$2.5	\$4.9	+ 95%		
2002	\$3.9	\$8.8	+ 127%	\$14.8	\$20.5

Indemnity (In Millions)

Accident Year	Paid Loss			Projected Ultimate	
	(1) 24 Months	(2) 36 Months	(3) Percent Increase	@12/31/02	@12/31/03
1995	\$5.2	\$7.2	+ 39%		
1996	\$4.4	\$6.1	+ 39%		
1997	\$3.6	\$5.0	+ 37%		
1998	\$3.4	\$4.3	+ 25%		
1999	\$3.5	\$4.6	+ 32%		
2000	\$4.0	\$5.6	+ 38%		
2001	\$4.9	\$7.7	+56%	\$11.0	\$13.0

Indemnity (In Millions)

Accident Year	Paid Loss			Projected Ultimate	
	(1) 36 Months	(2) 48 Months	(3) Percent Increase	@12/31/02	@12/31/03
1994	\$8.7	\$10.4	+ 19%		
1995	\$7.2	\$8.4	+ 17%		
1996	\$6.1	\$6.8	+ 11%		
1997	\$5.0	\$5.8	+ 18%		
1998	\$4.3	\$5.1	+ 18%		
1999	\$4.6	\$5.5	+ 18%		
2000	\$5.6	\$7.1	+27%	\$9.4	\$13.0

Medical (In Millions)

Accident Year	Paid Loss			Projected Ultimate	
	(1) 12 Months	(2) 24 Months	(3) Percent Increase	@12/31/02	@12/31/03
1996	\$6.1	\$10.0	+ 64%		
1997	\$6.2	\$9.8	+ 58%		
1998	\$5.7	\$8.6	+ 52%		
1999	\$5.2	\$8.2	+ 58%		
2000	\$4.9	\$8.4	+ 75%		
2001	\$5.3	\$9.4	+ 75%		
2002	\$8.1	\$15.0	+85%	\$18.0	\$20.5

Medical (In Millions)

Accident Year	Paid Loss			Projected Ultimate	
	(1) 24 Months	(2) 36 Months	(3) Percent Increase	@12/31/02	@12/31/03
1995	\$10.8	\$11.8	+ 9%		
1996	\$10.0	\$10.9	+ 9%		
1997	\$9.8	\$10.5	+ 7%		
1998	\$8.6	\$9.1	+ 6%		
1999	\$8.2	\$9.1	+ 10%		
2000	\$8.4	\$9.4	+ 12%		
2001	\$9.4	\$10.3	+10%	\$13.4	\$13.6

Medical (In Millions)

Accident Year	Paid Loss			Projected Ultimate	
	(1) 36 Months	(2) 48 Months	(3) Percent Increase	@12/31/02	@12/31/03
1994	\$14.2	\$14.9	+ 4%		
1995	\$11.8	\$12.3	+ 5%		
1996	\$10.9	\$11.2	+ 3%		
1997	\$10.5	\$11.0	+ 4%		
1998	\$9.1	\$9.3	+ 3%		
1999	\$9.1	\$9.6	+ 6%		
2000	\$9.4	\$9.9	+5%	\$12.2	\$13.6

Frequency of Claims

Accident Year	(1) Number of Indemnity Claims	(2) Payroll (in billions)	(3) Frequency (Number of claims per 10 million of payroll)
1996	1,663	\$3.14	5.3
1997	1,527	\$2.77	5.5
1998	1,399	\$2.57	5.4
1999	1,305	\$2.42	5.4
2000	1,327	\$2.30	5.8
2001	1,326	\$2.51	5.3
2002	1,630	\$2.97	5.5
2003	1,593	\$3.12	5.1

Average Cost Per Closed Claim Indemnity

Accident Year	12 Months	24 Months	36 Months	48 Months
1994				\$3,389
1995			\$2,616	\$3,027
1996		\$1,877	\$2,511	\$2,856
1997	\$1,392	\$2,065	\$2,741	\$3,079
1998	\$1,415	\$2,088	\$2,858	\$3,237
1999	\$1,256	\$2,053	\$2,969	\$3,414
2000	\$1,217	\$2,451	\$3,271	\$4,207
2001	\$1,354	\$2,365	\$3,972	
2002	\$1,349	\$3,380		
2003	\$1,634			

Average Cost Per Closed Claim Indemnity

Accident Year	12 Months	24 Months	36 Months	48 Months
1994				\$3,389
1995			\$2,616	\$3,027
1996		\$1,877	\$2,511	\$2,856
1997	\$1,392	\$2,065	\$2,741	\$3,079
1998	\$1,415	\$2,088	\$2,858	\$3,237
1999	\$1,256	\$2,053	\$2,969	\$3,414
2000	\$1,217	\$2,451	\$3,271	\$4,207
2001	\$1,354	\$2,365	\$3,972	
2002	\$1,349	\$3,380		
2003	\$1,634			

Average ALAE Reserve

Accident Year	@ 12 Months	@ 24 Months	@ 36 Months	@ 48 Months
1994				\$1,181
1995			\$1,268	\$1,311
1996		\$973	\$1,512	\$1,069
1997	\$115	\$724	\$1,255	\$1,048
1998	\$61	\$750	\$1,031	\$1,067
1999	\$61	\$707	\$1,196	
2000	\$162	\$694		
2001	\$128			
2002				
2003				

Average ALAE Reserve

Accident Year	@ 12 Months	@ 24 Months	@ 36 Months	@ 48 Months
1994				\$1,181
1995			\$1,268	\$1,311
1996		\$973	\$1,512	\$1,069
1997	\$115	\$724	\$1,255	\$1,048
1998	\$61	\$750	\$1,031	\$1,067
1999	\$61	\$707	\$1,196	\$1,132
2000	\$162	\$694	\$1,600	
2001	\$128	\$801		
2002	\$156			
2003				

Average ALAE Reserve

Accident Year	@ 12 Months	@ 24 Months	@ 36 Months	@ 48 Months
1994				\$1,181
1995			\$1,268	\$1,311
1996		\$973	\$1,512	\$1,069
1997	\$115	\$724	\$1,255	\$1,048
1998	\$61	\$750	\$1,031	\$1,067
1999	\$61	\$707	\$1,196	\$1,132
2000	\$162	\$694	\$1,600	\$1,410
2001	\$128	\$801	\$1,495	
2002	\$156	\$1,297		
2003	\$542			

Claims With Loss Greater Than \$100,000

Accident Year	60 to 72 Months
1993	+ 8%
1994	+ 9%
1995	- 1%
1996	+ 3%
1997	+ 21%
1998	- 7%

Claims With Loss Greater Than \$100,000

Accident Year	60 to 72 Months
1993	+ 8%
1994	+ 9%
1995	- 1%
1996	+ 3%
1997	+ 21%
1998	- 7%

Claims With Loss Greater Than \$100,000

Accident Year	72 to 84 Months
1992	+ 2%
1993	+ 5%
1994	+ 1%
1995	+ 10%
1996	+ 5%
1997	- 10%

Claims With Loss Greater Than \$100,000

Accident Year	72 to 84 Months
1992	+ 2%
1993	+ 5%
1994	+ 1%
1995	+ 10%
1996	+ 5%
1997	- 10%

Claims With Loss Greater Than \$100,000

Accident Year	84 to 96 Months
1991	0%
1992	- 1%
1993	- 4%
1994	0%
1995	+ 14%
1996	- 11%

Claims With Loss Greater Than \$100,000

Accident Year	84 to 96 Months
1991	0%
1992	- 1%
1993	- 4%
1994	0%
1995	+ 14%
1996	- 11%

Claims With Loss Greater Than \$100,000

Changes in Incurred Loss	Monthly Intervals				
	60-72	72-84	84-96	96-108	108-120
During 2002	+ 21%	+ 5%	+ 14%	+ 11%	+ 7%
During 2003	- 7%	- 10%	- 11%	- 7%	- 7%

Claims With Loss Greater Than \$100,000

Changes in Incurred Loss	Monthly Intervals				
	120-132	132-144	144-156	156-168	168-180
During 2002	+ 9%	+ 6%	+ 9%	+ 7%	+ 5%
During 2003	- 3%	- 3%	- 2%	- 5%	- 3%

Claims With Loss Greater Than \$100,000

Changes in Incurred Loss	Monthly Intervals				
	180-192	192-204	204-216	216-228	228-240
During 2002	+ 12%	0%	+ 36%	+ 10%	N/A
During 2003	- 8%	- 3%	- 12%	- 10%	-11%

Not A Problem

1. Frequency
2. Inadequacy of Case Reserves

Problems

1. Sharp Unexpected Increases in Severity
2. Spiraling Costs for Both Indemnity and Medical, with Indemnity More of a Problem
3. Overstatement of Case Reserves for Large Losses during 2002

Problems May Have Been Cause By...

1. Economy – “Jobless Recovery”
2. HB 992
3. Increased Attorney Involvement

Problems Magnified By...

1. Sharp Increase in Writings
for 2002 and 2003
2. Difficulty in Obtaining
Good Historical Claim Counts
at 12/31/02

HISTORICAL DATA

	1	2	3
(in 000's)	1996	1997	1998
1. Gross Premiums Earned	\$60,324	\$37,326	\$28,174
2. Net Premiums Earned	\$57,775	\$34,239	\$26,549
3. Statement of Income			
Underwriting gain or (loss)	\$11,987	\$7,850	\$(4,102)
Investment gain or (loss)	\$4,028	\$4,967	\$4,736
Other income (if any)	-----	-----	-----
Dividends to policyholders (paid or declared)	\$15,400	-----	\$1,000
Federal income taxes incurred (benefit)	\$215	\$4,487	\$(57)
Net income	\$400	\$8,330	\$691
4. Balance Sheet Items:			
Total Assets	\$89,740	\$98,869	\$68,577
Invested Assets and cash	\$82,650	\$82,739	\$60,158
Agents' balances and uncollected premiums	\$3,911	\$3,601	\$1,873
Total liabilities	\$73,662	\$81,728	\$58,538
Claim reserves and claim expenses	\$30,000	\$28,653	\$33,684
IBNR	\$41,000	\$26,512	\$15,846
Unearned premiums	-----	\$2,745	\$2,575
5. Membership equity	\$15,808	\$8,862	\$10,039

HISTORICAL DATA

	1	2	3
(in 000's)	1997	1998	1999
1. Gross Premiums Earned	\$37,326	\$28,174	\$25,571
2. Net Premiums Earned	\$32,027	\$26,094	\$24,174
3. Statement of Income			
Underwriting gain or (loss)	\$7,850	\$(4,102)	\$ (398)
Investment gain or (loss)	\$4,967	\$4,736	\$ 3,482
Other income (if any)	-----	-----	
Dividends to policyholders (paid or declared)	-----	\$1,000	
Federal income taxes incurred (benefit)	\$4,487	\$(57)	\$ 478
Net income	\$8,330	\$691	\$ 2,606
4. Balance Sheet Items:			
Total Assets	\$98,869	\$68,577	\$63,632
Invested Assets and cash	\$82,739	\$60,158	\$57,960
Agents' balances and uncollected premiums	\$3,601	\$1,873	\$ 1,973
Total liabilities	\$81,728	\$58,538	\$51,968
Claim reserves and claim expenses	\$28,653	\$33,684	\$33,016
IBNR	\$26,512	\$15,846	\$10,784
Unearned premiums	\$2,745	\$2,575	\$ 2,221
5. Membership equity	\$8,862	\$10,039	\$11,664

HISTORICAL DATA

	1	2	3
(in 000's)	1998	1999	2000
1. Gross Premiums Earned	\$28,174	\$25,571	\$24,774
2. Net Premiums Earned	\$26,094	\$24,174	\$22,688
3. Statement of Income			
Underwriting gain or (loss)	\$(4,102)	\$ (398)	\$ (5,152)
Investment gain or (loss)	\$4,736	\$ 3,482	\$ 3,395
Other income (if any)	-----		
Dividends to policyholders (paid or declared)	\$1,000		
Federal income taxes incurred (benefit)	\$(57)	\$ 478	\$(1,021)
Net income (loss)	\$691	\$ 2,606	\$ (767)
4. Balance Sheet Items:			
Total Assets	\$68,577	\$63,632	\$57,265
Invested Assets and cash	\$60,158	\$57,960	\$52,972
Agents' balances and uncollected premiums	\$1,873	\$ 1,973	\$ 2,036
Total liabilities	\$58,538	\$51,968	\$45,881
Claim reserves and claim expenses	\$33,684	\$33,016	\$30,532
IBNR	\$15,846	\$10,784	\$10,018
Unearned premiums	\$2,575	\$ 2,221	\$ 2,292
5. Membership equity	\$10,039	\$11,664	\$11,385

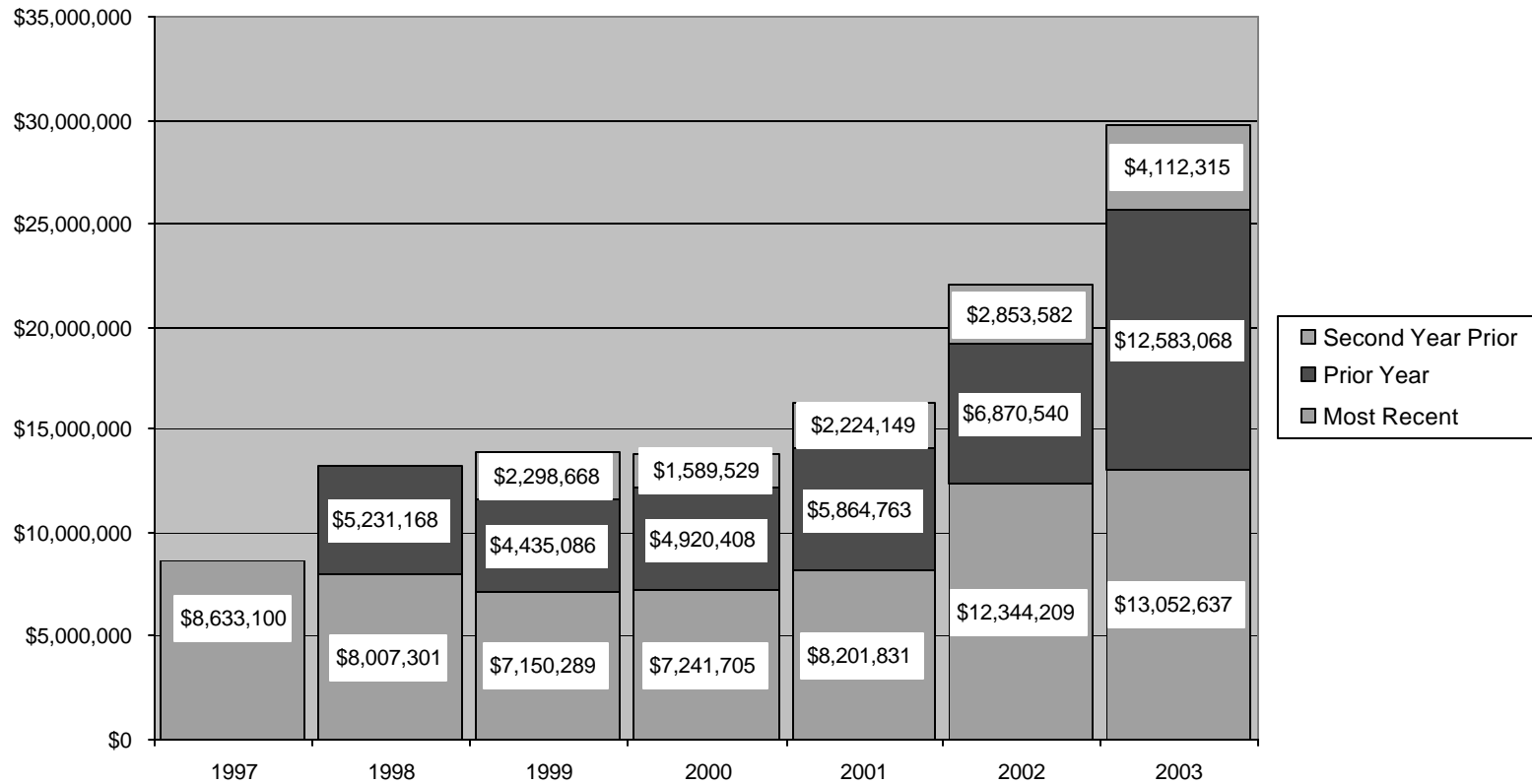
HISTORICAL DATA

	1	2	3
(in 000's)	1999	2000	2001
1. Gross Premiums Earned	\$25,571	\$24,774	\$28,340
2. Net Premiums Earned	\$24,174	\$22,688	\$25,536
3. Statement of Income			
Underwriting gain or (loss)	\$ (398)	\$ (5,152)	\$ (9,823)
Investment gain or (loss)	\$ 3,482	\$ 3,395	\$ 3,170
Other income (if any)			
Dividends to policyholders (paid or declared)			
Federal income taxes incurred (benefit)	\$ 478	\$(1,021)	\$(1,695)
Net income (loss)	\$ 2,606	\$ (767)	\$ (4,958)
4. Balance Sheet Items:			
Total Assets	\$63,632	\$57,265	\$54,388
Invested Assets and cash	\$57,960	\$52,972	\$47,107
Agents' balances and uncollected premiums	\$ 1,973	\$ 2,036	\$ 3,496
Total liabilities	\$51,968	\$45,880	\$47,856
Claim reserves and claim expenses	\$33,016	\$30,532	\$31,801
IBNR	\$10,784	\$10,018	\$9,072
Unearned premiums	\$ 2,221	\$ 2,292	\$5,229
5. Membership equity	\$11,664	\$11,385	\$6,532

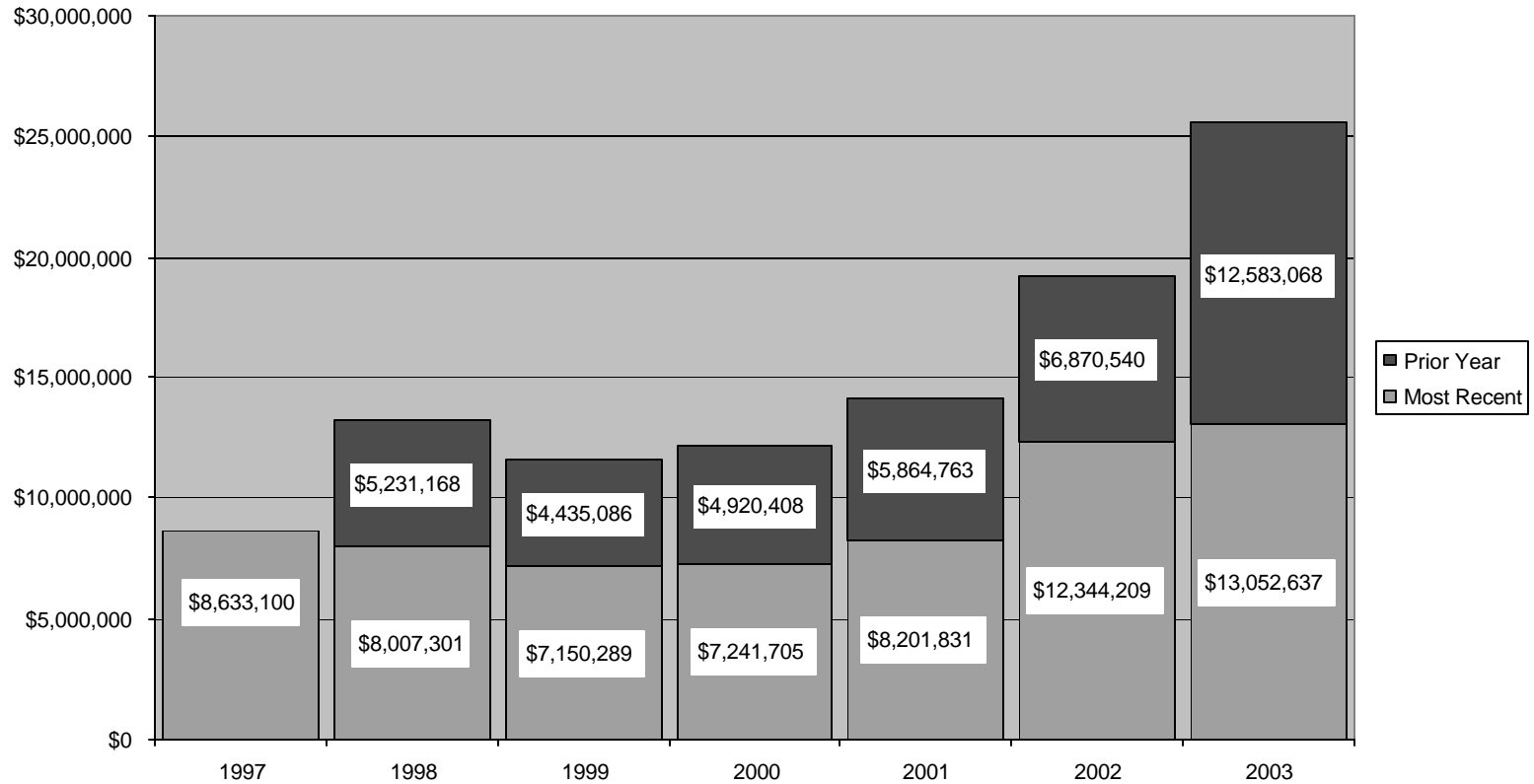
HISTORICAL DATA

	1	2	3
(in 000's)	2000	2001	2002
1. Gross Premiums Earned	\$24,774	\$28,340	\$40,342
2. Net Premiums Earned	\$22,688	\$25,536	\$36,083
3. Statement of Income			
Underwriting gain or (loss)	\$ (5,152)	\$ (9,823)	\$ (8,838)
Investment gain or (loss)	\$ 3,395	\$ 3,170	\$ 2,254
Other income (if any)			
Dividends to policyholders (paid or declared)			
Federal income taxes incurred	\$(1,021)	\$(1,695)	\$(1,355)
Net income	\$ (767)	\$ (4,958)	\$ (5,229)
4. Balance Sheet Items:			
Total Assets	\$57,265	\$54,388	\$55,000
Invested Assets and cash	\$52,972	\$47,107	\$44,772
Agents' balances and uncollected premiums	\$ 2,036	\$ 3,496	\$ 4,889
Total liabilities	\$45,880	\$47,856	\$54,954
Claim reserves and claim expenses	\$30,532	\$31,801	\$42,432
IBNR	\$10,018	\$9,072	
Unearned premiums	\$ 2,292	\$5,229	\$10,066
5. Membership equity	\$11,385	\$6,532	\$47

Total Annual Net Payment
(Combining the most recent and prior year payments)



Claims Payments
(Combining the most recent and prior year payments)



AIK COMP

Balance Sheet

December 31, 1998
(in thousands)

Assets

Securities available-for-sale, at fair value	\$ 59,090
Cash and cash equivalents	1,068
Premiums receivable	1,873
Accrued interest receivable	431
Income taxes receivable	3,495
Prepaid commissions	662
Prepaid excess insurance premium	563
Intangible assets (net of accumulated amortization - \$84)	916
Other assets	479
	<hr/>
Total assets	<u>\$ 68,577</u>

AIK COMP

Balance Sheet

December 31, 1998
(in thousands)

Liabilities and Fund Balance

Unpaid losses and loss adjustment expenses:

Reported claims	\$ 33,684
Incurred but not reported claims	15,816
Total unpaid losses and loss adjustment expenses	49,500
Advance premiums	2,575
Accrued liabilities and accounts payable	1,139
Member dividends payable	1,000
Deferred income taxes	3,027
Insurance tax payable	1,188
Other liabilities	109
Total liabilities	58,538
Fund balance	10,039
Commitments and contingencies	
Total liabilities and fund balance	\$ 68,577

AIK COMP
Statement of Income
Year ended December 31, 1998
(in thousands)

Revenues:

Earned premiums	\$ 28,174
Investment income	4,736
Total revenues	32,910

Expenses:

Losses and loss adjustment expenses incurred (net of excess insurance recoveries - \$ 294)	16,664
Managed care expenses	2,002
Excess insurance premiums	1,625
Management fees	4,749
Insurance tax	2,080
Commissions	2,806
Member dividends	1,000
Professional services	570
Other operating expenses	780

Total expenses	32,276
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Income before income taxes	634
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Income tax expense (benefit):

Current	(3,794)
Deferred	3,737
	(57)

Net income	\$ 691
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AIK COMP
Statement of Changes in Fund Balance
Year ended December 31, 1998
(in thousands)

	<u>Retained Earnings</u>	Accumulated Other Comprehensive <u>Income</u>	<u>Total Fund Balance</u>
Balance at December 31, 1997	\$ 8,738	\$ 124	\$ 8,862
Comprehensive income:			
Net income	691	--	691
Change in net unrealized gain on securities available-for-sale	--	486	<u>486</u>
Total comprehensive income	<u> </u>	<u> </u>	<u>1,177</u>
Balance at December 31, 1998	<u>\$ 9,429</u>	<u>\$ 610</u>	<u>\$ 10,039</u>

AIK COMP
Balance Sheet
December 31, 1999

Assets

Fixed maturities available-for-sale	\$ 56,448,868
Equity securities	1,510,599
Cash and cash equivalents	1,292,733
Premiums receivable	1,973,154
Accrued interest receivable	675,436
Other receivables	198,671
Prepaid commissions	715,135
Intangible assets (net of accumulated amortization - \$416,894)	582,651
Other assets	234,873
	<hr/>
Total assets	\$ 63,632,120
	<hr/>

AIK COMP
Balance Sheet
December 31, 1999

Liabilities and Fund Balance

Unpaid losses and loss adjustment expenses:

Reported claims	\$ 33,016,000
Incurred but not reported claims	10,784,000
Total unpaid losses and loss adjustment expenses	43,800,000
Advance premiums	2,220,751
Accrued liabilities and accounts payable	719,205
Member dividends payable	1,000,000
Income taxes payable	1,449,643
Deferred income taxes	2,215,237
Insurance tax payable	453,570
Other liabilities	109,237
Total liabilities	51,967,643
Fund balance	11,664,477
 Total liabilities and fund balance	 \$ 63,632,120

AIK COMP
Statement of Income
For the year ended December 31, 1999

Revenue:

Earned premiums, net	\$ 24,174,424
Investment income	3,482,246
	<hr/>
	27,656,670

Expenses:

Losses & loss adjustment expenses incurred (net of excess insurance recoveries - \$221,954)	13,566,886
Managed care expenses	1,932,413
Excess insurance premiums	786,593
Claims service fees	1,615,026
Commissions	2,838,241
Professional services	637,776
Other operating expenses	3,195,590
	<hr/>
Total expenses	24,572,525
	<hr/>
Income before income taxes	3,084,145
Income tax expense (benefit):	
Current	779,464
Deferred	(301,597)
	<hr/>
	477,867
	<hr/>
Net income	\$ 2,606,278

AIK COMP
Statement of Changes in Fund Balance
For the year ended December 31, 1999

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Fund Balance
	<hr/>		
Balance at December 31, 1998	\$ 9,429,847	\$ 609,248	\$ 10,039,095
Comprehensive income:			
Net income	2,606,278	—	2,606,278
Change in net unrealized gain/(loss) on securities available-for-sale	—	(980,896)	(980,896)
	<hr/>		
Total comprehensive income			1,625,382
	<hr/>		
Balance at December 31, 1999	\$ 12,036,125	\$ (371,648)	\$ 11,664,477
	<hr/>		

AIK COMP

Balance Sheets

	December 31	
	2000	1999
<hr/>		
Assets		
Fixed maturities available-for-sale	\$ 48,636,461	\$ 56,448,868
Equity securities	2,510,197	1,510,599
Cash and cash equivalents	1,825,163	1,292,733
Premiums receivable, net	2,035,714	1,973,154
Accrued interest receivable	664,150	675,436
Other receivables	412,970	198,671
Prepaid commissions	623,773	715,135
Intangible assets (net of accumulated amortization - \$750,450 and 416,894)	249,095	582,651
Other assets	307,593	234,873
	<hr/>	
Total assets	\$ 57,265,116	\$ 63,632,120

AIK COMP

Balance Sheets

	December 31	
	2000	1999
Liabilities and Fund Balance		
Unpaid losses and loss adjustment expenses:		
Reported claims	\$ 30,532,000	\$ 33,016,000
Incurred but not reported claims	10,018,000	10,784,000
Total unpaid losses and loss adjustment expenses	40,550,000	43,800,000
Advance premiums	2,292,531	2,220,751
Accrued liabilities and accounts payable	669,255	659,205
Member dividends payable	-	1,000,000
Income taxes payable	854,293	1,449,643
Deferred income taxes	787,587	2,215,237
Special Fund taxes payable	487,550	453,570
Other liabilities	239,335	169,237
Total liabilities	45,880,551	51,967,643
Fund balance	11,384,565	11,664,477
Total liabilities and fund balance	\$ 57,265,116	\$ 63,632,120

AIK COMP

Statements of Income

	Year ended December 31	
	2000	1999
Revenue:		
Earned premiums, net	\$ 22,688,046	\$ 24,174,424
Investment income	3,395,382	3,482,246
	26,083,428	27,656,670
Expenses:		
Losses & loss adjustment expenses incurred (net of excess insurance recoveries - \$335,674 & \$221,954)	16,328,029	13,566,886
Managed care expenses	1,631,400	1,932,413
Excess insurance premiums	921,476	786,593
Claims service fees	2,233,210	1,615,026
Commissions	2,743,338	2,838,241
Professional services	612,458	637,776
Other operating expenses	3,401,788	3,195,590
Total expenses	27,871,699	24,572,525
Income before income taxes	(1,788,271)	3,084,145
Income tax expense (benefit):		
Current	654,650	779,464
Deferred	(1,675,758)	(301,597)
	(1,021,108)	477,867
Net income	\$ (767,163)	\$ 2,606,278

AIK COMP

Statements of Changes in Fund Balance

For the years ended December 31, 2000 and December 31, 1999

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Fund Balance
Balance at December 31, 1998	\$ 9,429,847	\$ 609,248	\$ 10,039,095
Comprehensive income:			
Net income	2,606,278	-	2,606,278
Change in net unrealized gain/(loss) on available-for-sale securities	-	(980,896)	(980,896)
Total comprehensive income			1,625,382
Balance at December 31, 1999	12,036,125	(371,648)	11,664,477
Comprehensive income:			
Net income	(767,163)	-	(767,163)
Change in net unrealized gain/(loss) on available-for-sale securities		487,251	487,251
Total comprehensive income			(279,912)
Balance at December 31, 2000	\$ 11,268,962	\$ 115,603	\$ 11,384,565

AIK COMP

Balance Sheets

	December 31	
	2001	2000
<hr/>		
Assets		
Fixed maturities available-for-sale	\$ 42,349,657	\$ 48,636,461
Equity securities	2,234,931	2,510,197
Cash and cash equivalents	2,521,785	1,825,163
Premiums receivable, net	3,495,780	2,035,714
Accrued interest receivable	395,045	664,150
Other receivables	346,631	412,970
Income tax receivable	861,347	-
Prepaid commissions	1,057,370	623,773
Deferred income tax asset, net	860,442	-
Intangible assets, net	-	249,095
Other assets	265,187	307,593
	<hr/>	
Total assets	\$ 54,388,175	\$ 57,265,116

AIK COMP

Balance Sheets

	December 31	
	2001	2000
Liabilities and Fund Balance		
Unpaid losses and loss adjustment expenses:		
Reported claims	\$ 31,801,000	\$ 30,532,000
Incurred but not reported claims	9,072,000	10,018,000
Total unpaid losses and loss adjustment expenses	40,873,000	40,550,000
Advance premiums	5,229,474	2,292,531
Accrued liabilities and accounts payable	453,637	669,255
Income taxes payable	-	854,293
Deferred income tax liability, net	-	787,587
Special Fund taxes payable	991,720	487,550
Other liabilities	308,123	239,335
Total liabilities	47,855,954	45,880,551
Fund balance	6,532,221	11,384,565
Total liabilities and fund balance	\$ 54,388,175	\$ 57,265,116

AIK COMP

Statements of Income

	Year ended December 31	
	2001	2000
Revenue:		
Earned premiums, net	\$ 25,535,662	\$ 22,688,046
Investment income	<u>3,170,295</u>	<u>3,395,382</u>
	28,705,957	26,083,428
Expenses:		
Losses & loss adjustment expenses incurred, net of excess insurance recoveries of \$667,700 and \$335,674, respectively	23,301,895	16,328,029
Managed care expenses	1,475,391	1,631,400
Excess insurance premiums	952,955	921,476
Claims service fees	2,417,506	2,233,210
Commissions	3,013,307	2,743,338
Professional services	588,593	612,458
Other operating expenses	<u>3,609,768</u>	<u>3,401,788</u>
Total expenses	<u>35,359,415</u>	<u>27,871,699</u>
Loss before income taxes	(6,653,458)	(1,788,271)
Income tax expense (benefit):		
Current	10,181	654,650
Deferred	<u>(1,705,455)</u>	<u>(1,675,758)</u>
	<u>(1,695,274)</u>	<u>(1,021,108)</u>
Net loss	<u>\$ (4,958,184)</u>	<u>\$ (767,163)</u>

AIK COMP

Statements of Changes in Fund Balance

For the years ended December 31, 2001 and 2000

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Fund Balance
Balance at January 1, 2000	\$ 12,036,125	\$ (371,648)	\$ 11,664,477
Comprehensive income:			
Net loss	(767,163)	-	(767,163)
Change in net unrealized gain/(loss) on available-for-sale securities	-	487,251	487,251
Total comprehensive income			(279,912)
Balance at December 31, 2000	11,268,962	115,603	11,384,565
Comprehensive income:			
Net loss	(4,958,184)	-	(4,958,184)
Change in net unrealized gain/(loss) on available-for-sale securities	-	105,840	105,840
Total comprehensive income			(4,852,344)
Balance at December 31, 2001	\$ 6,310,778	\$ 221,443	\$ 6,532,221

AIK COMP

Balance Sheets

	December 31	
	2002	2001
	(Restated)	
Assets		
Fixed maturities available-for-sale	\$ 41,179,360	\$ 42,349,657
Equity securities	1,766,470	2,234,931
Cash and cash equivalents	1,826,145	2,521,785
Premiums receivable, net	4,888,508	3,495,780
Accrued interest receivable	332,637	395,045
Other receivables	237,523	346,631
Income tax receivable	2,999,997	1,922,440
Prepaid commissions	1,292,916	1,057,370
Deferred income tax asset, net	-	860,442
Other assets	476,691	265,187
Total assets	\$ 55,000,246	\$ 55,449,268

AIK COMP

Balance Sheets

	December 31	
	2002	2001
	(Restated)	
Liabilities and Fund Balance		
Unpaid losses and loss adjustment expenses	\$ 42,431,914	\$ 40,873,000
Advance premiums	10,066,423	8,068,540
Accrued liabilities and accounts payable	901,034	453,637
Special Fund taxes payable	1,063,896	991,720
Other liabilities	490,392	308,123
Total liabilities	54,953,658	50,695,020
Fund balance (deficit)	46,588	4,754,248
Total liabilities and fund balance	\$ 55,000,246	\$ 55,449,268

AIK COMP

Statements of Income

	Year ended December 31	
	2002	2001
Revenue:		
Earned premiums, net	\$ 36,083,318	\$ 25,535,662
Investment income	2,562,905	2,952,781
Realized investment gains (losses)	(309,078)	217,514
	<u>38,337,145</u>	<u>28,705,957</u>
Expenses:		
Losses & loss adjustment expenses incurred, net of excess insurance recoveries of \$894,940 and \$667,700, respectively	30,031,955	23,301,895
Managed care expenses	1,424,080	1,475,391
Excess insurance premiums	1,650,771	952,955
Claims service fees	2,668,962	2,417,506
Commissions	4,534,792	3,013,307
Professional services	756,424	588,593
Other operating expenses	3,854,381	3,609,768
Total expenses	<u>44,921,366</u>	<u>35,359,415</u>
Loss before income taxes	(6,584,221)	(6,653,458)
Income tax expense (benefit):		
Current	(1,946,502)	10,181
Deferred	591,671	(1,705,455)
	<u>(1,354,831)</u>	<u>(1,695,274)</u>
Net loss	<u>\$ (5,229,390)</u>	<u>\$ (4,958,184)</u>

AIK COMP

Statements of Changes in Fund Balance

For the years ended December 31, 2002 and 2001

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Fund Balance
Balance at January 1, 2001 -			
As previously reported	\$ 11,268,962	\$ 115,603	\$ 11,384,565
Adjustments (Note 4)	(1,777,973)	-	(1,777,973)
As restated	9,490,989	115,603	9,606,592
Comprehensive income:			
Net loss	(4,958,184)	-	(4,958,184)
Change in net unrealized gain/(loss) on available-for-sale securities	-	105,840	105,840
Total comprehensive income			(4,852,344)
Balance at December 31, 2001 (Restated)	4,532,805	221,443	4,754,248
Comprehensive income:			
Net loss	(5,229,390)	-	(5,229,390)
Change in net unrealized gain/(loss) on available-for-sale securities	-	521,730	521,730
Total comprehensive income			(4,707,660)
Balance at December 31, 2002	\$ (696,585)	\$ 743,173	\$ 46,588

AIK Comp, Inc.
STATEMENTS OF FINANCIAL POSITION
For the year ended December 31, 2003

ASSETS

Investment securities available-for-sale, at fair market value	\$33,563,255	
Mutual funds, at fair market value	2,320,325	
Cash and cash equivalents	3,838,619	
Premiums receivable – less allowance for uncollectible accounts of \$150,000	2,245,376	
Reinsurance recoverables on unpaid losses and loss adjustment expenses	12,126,191	
Reinsurance recoverables on paid losses and loss adjustment expenses	228,413	
Accrued interest receivable	238,435	
Prepaid commissions	1,431,655	
Furniture, fixtures, and equipment, net of accumulated depreciation of \$376,715	942,133	
Deferred income tax charge	514,504	(A)
Other assets	173,452	
	<hr/>	
	\$57,622,358	

(A) This amount could potentially be written off depending upon how the assessment is handled.

AIK Comp, Inc.
STATEMENTS OF FINANCIAL POSITION
For the year ended December 31, 2003

LIABILITIES AND POLICYHOLDERS' SURPLUS

Unpaid losses and loss adjustment expenses	\$81,902,686
Premium deficiency reserve	3,800,000
Unearned premiums and advance premiums	8,343,031
Reinsurance premiums payable	302,609
Special Fund assessments payable	960,675
Accounts payable and accrued expenses	1,080,438
Other liabilities	605,242
	<hr/>
	96,994,681
Deficiency in policyholders' surplus	(39,372,323)
	<hr/>
	<u>\$57,622,358</u>

**AIK Average Rate/State Average Rate Before Assessment
(Per \$100 of Payroll Covered)**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
AIK	1.54	1.36	1.16	1.09	1.16	1.31	1.57
State Average	2.44	1.97	1.54	1.47	1.53	1.62	1.75

**AIK Earned Premium/Premium Based on State Average Rate
(In Millions of Dollars) Before Assessment**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Premium Based on State Average	53.2	37.791	31.416	31.119	37.454	48.259	50.680
AIK Premium	33.7	26.38	23.79	23.23	28.481	39.07	45.4

**Conversion of Calendar Year/Policy Year Premiums
Using Calendar Year/Earned Year Premium Numbers
The average AIK Rate per \$100 is before assessment**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Policy Year	1.54	1.36	1.16	1.09	1.16	1.31	1.57
Calendar Year	1.71	1.34	1.17	1.11	1.10	1.26	1.45

AIK Average Rate/Statewide Average Rate
After Assessment/
(Per \$100 of Payroll Covered)
(without 10% general assessment)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
AIK	1.38	1.42	1.54	1.60	1.77
State Average	1.97	1.54	1.47	1.53	1.62

AIK Average Rate/Statewide Average Rate
After Assessment/
(Per \$100 of Payroll Covered)
(with 10% general assessment)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
AIK	1.51	1.54	1.65	1.71	1.90
State Average	1.97	1.54	1.47	1.53	1.62

Recap

Rates Compared With State Average

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
AIK Before	1.36	1.16	1.09	1.16	1.31
AIK After Initial	1.38	1.42	1.54	1.60	1.77
AIK After 10%	1.51	1.54	1.65	1.71	1.90
State Average	1.97	1.54	1.47	1.53	1.62

BALANCE SHEET INFORMATION

Year	Fund Balance	Operating Income After Taxes	Total Income
1998	\$10 Million	\$691,000	\$1.18 Million
1999	\$11.7 Million	\$2.6 Million	\$1.6 Million
2000	\$11.4 Million	(\$767,000)	(\$767,000)
2001	\$6.5 Million	(\$5 Million)	(\$5 Million)
2002	\$50,000	(\$5.23 Million)	(\$5.23 Million)

DWC FILING INFORMATION

Year	Net Underwriting Gain (Loss	Investment Income	Dividend	Total Net Income
1998	(\$4.1 Million)	\$5 Million	\$1 Million	\$691,000
1999	(\$398,000)	\$3.5 Million		\$2.6 Million
2000	(\$5.15 Million)	\$3.4 Million		(\$767,000)
2001	(\$9.8 Million)	\$3.17 Million		(\$5 Million)
2002	(\$8.8 Million)	\$2.25 Million		(\$4.2 Million)

PREMIUM DISCOUNTS

<u>Year</u>	<u>Amount</u>
1998	\$16,194,677
1999	\$16,480,683
2000	\$16,006,825
2001	\$17,642,262
2002	<u>\$13,818,691</u>
	\$80,143,138
Less 20% Discount Factor	<u>\$16,000,000</u>
	\$64,143,138
Less Commission, Excess, AIK %	\$7.2 Million (approximately)
	<u>\$57 million</u>

AIK COMP REMEDIAL PLAN

1. Premium Adjustment for PYs 1998 – 2001 to achieve overall 1 to 1 loss ratio capped at net underwriting loss **\$23 Million**
 2. Assess PY 2002 pro rata to cure net underwriting loss **\$13 Million**
 3. Assess PYs 1998 – 2002 10 % **\$13 Million**
- \$49 Million**